

Pensions Policy Institute

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The UK's leading independent
authority on pensions and
retirement policy

Welcome

**Unlocking DB surpluses:
Balancing risks and
rewards**

Wednesday 27 May 2026

www.pensionspolicyinstitute.org.uk



Welcome

Claire Altman

Managing Director of Pension Risk
Transfer & Individual Retirement
Standard Life

Pensions Policy Institute
PPI

Standard Life



Chair's Welcome

John Chilman

PPI Trustee

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A research report by the UK's leading independent authority on pensions and retirement policy

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Event overview

The event today is the official launch of the report
‘Unlocking DB surpluses: Balancing risks and rewards’

Sponsored by Standard Life, the ABI, Aptia Group,
and Pensions UK.

This report examines the scale and drivers of DB surpluses, the evolving legislative framework, and the range of considerations facing trustees, sponsors, and policymakers. Drawing on stakeholder interviews and modelling analysis, the report explores the trade-offs and risks associated with different approaches to surplus use.

Unlocking DB
surpluses:
Balancing Risks
and Rewards





The PPI Pillars of Purpose



**We are the UK's leading independent authority on pensions and retirement policy.
We conduct rigorous, impartial, evidence-based research that shapes better retirement outcomes for everyone.**

OUR VISION

BETTER-INFORMED POLICIES AND DECISIONS THAT IMPROVE LATER LIFE OUTCOMES

OUR MISSION

WE PROMOTE INFORMED, EVIDENCE-BASED POLICIES AND DECISIONS FOR FINANCIAL PROVISION IN LATER LIFE THROUGH INDEPENDENT RESEARCH AND ANALYSIS

WE ARE A TRUSTED SOURCE OF INFORMATION

We balance the argument by providing objective and accessible information on the extent and nature of later life financial provision, and any associated implications.

WE LEAD THE DEBATE

Through contributing impartial analysis and commentary to the policymaking process.

WE ENCOURAGE RESEARCH

Both at the PPI and in collaboration with others, which in turn informs policy and decision-making.

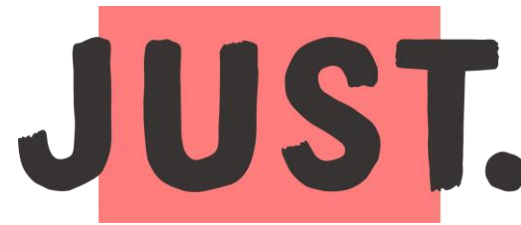
WE MODEL IMPACT OF POLICY CHANGES

We analyse long-term outcomes under the current UK pensions system and the impacts of possible reforms.

Our Supporters

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Key Findings

Shantel Okello

Policy Researcher

Pensions Policy Institute (PPI)

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Overview

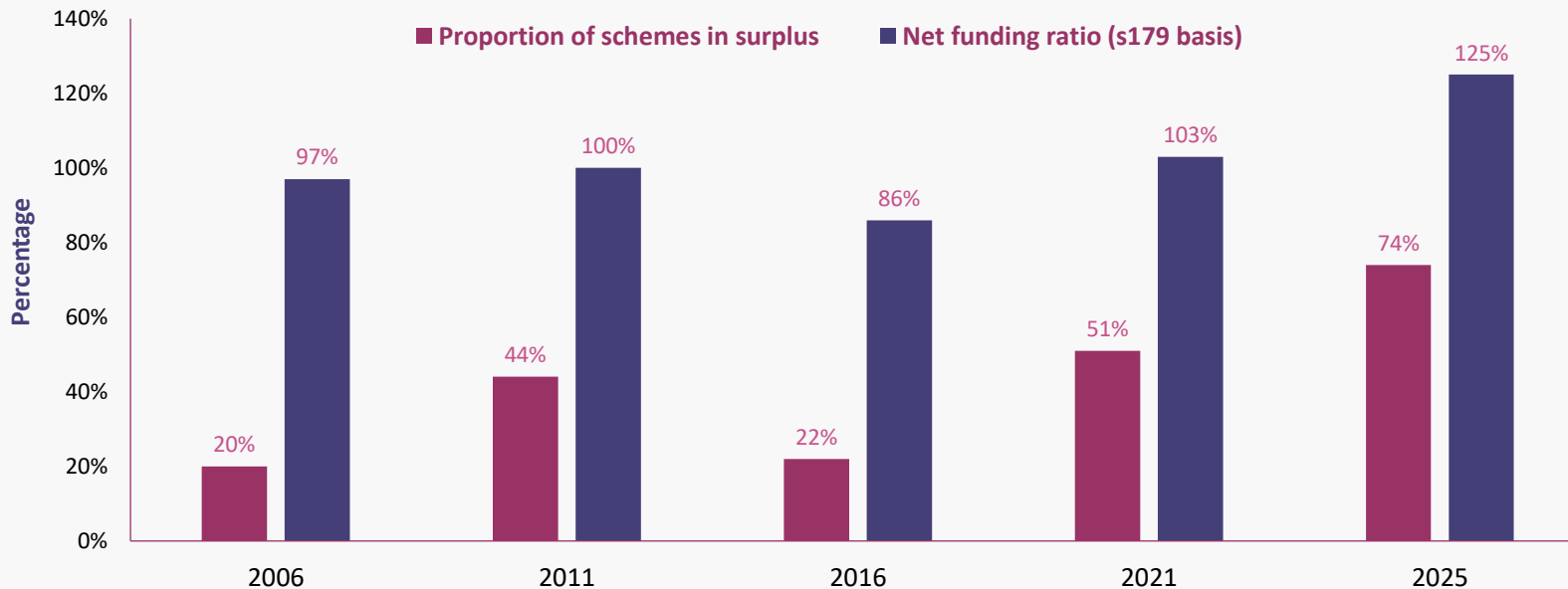
- ✓ How have DB surpluses emerged?
- ✓ How sustainable are current surpluses?
- ✓ How can surplus be strategically used?
- ✓ What are the wider economic and policy implications?
- ✓ Key takeaways

UK DB schemes have entered a structurally stronger funding era

DB funding has improved but gains are driven by market and structural factors

The proportion of schemes in surplus has significantly increased over the past two decades

The net funding ratio (s179 basis) and proportion of schemes in surplus at 5-year intervals starting from the first edition of the PPF Purple Book

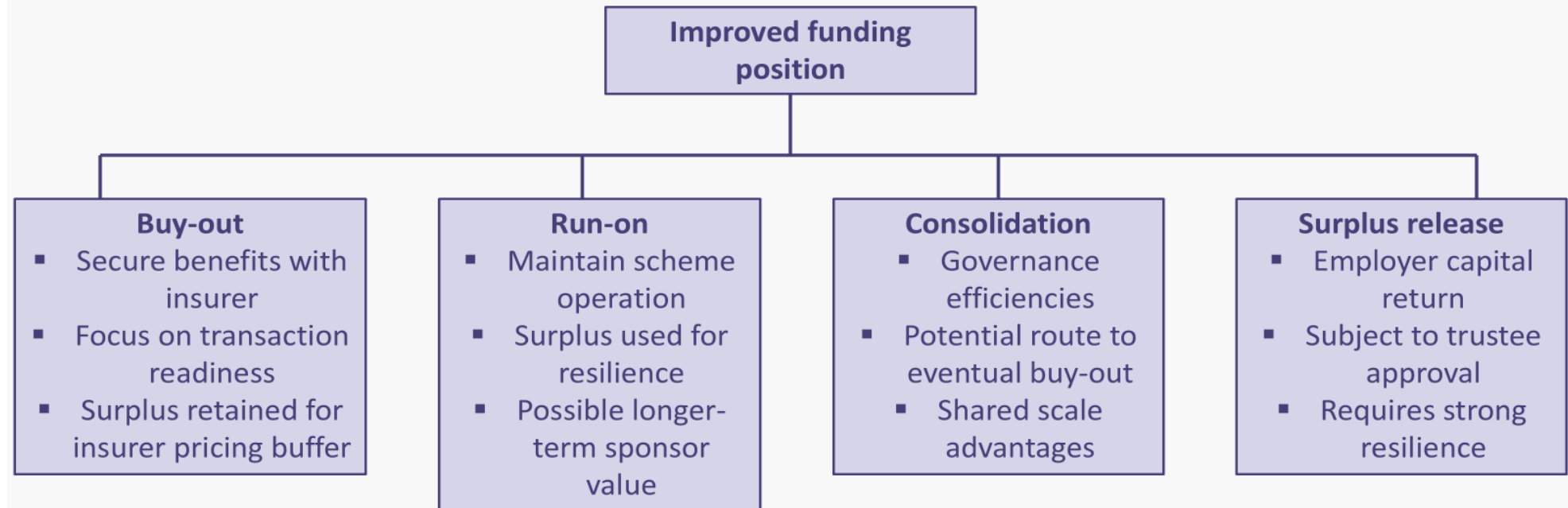


- Rising interest rates have been the dominant driver through liability reduction
- Asset growth, revised longevity assumptions, and prior sponsor contributions strengthened gains
- Structural maturity and widespread closure have improved liability predictability

Today's surplus does not guarantee long-term resilience

Surplus is unevenly distributed and strategically constrained

The strategic value of surplus depends less on aggregate funding figures and more on each scheme's endgame, governance capacity, and long-term resilience

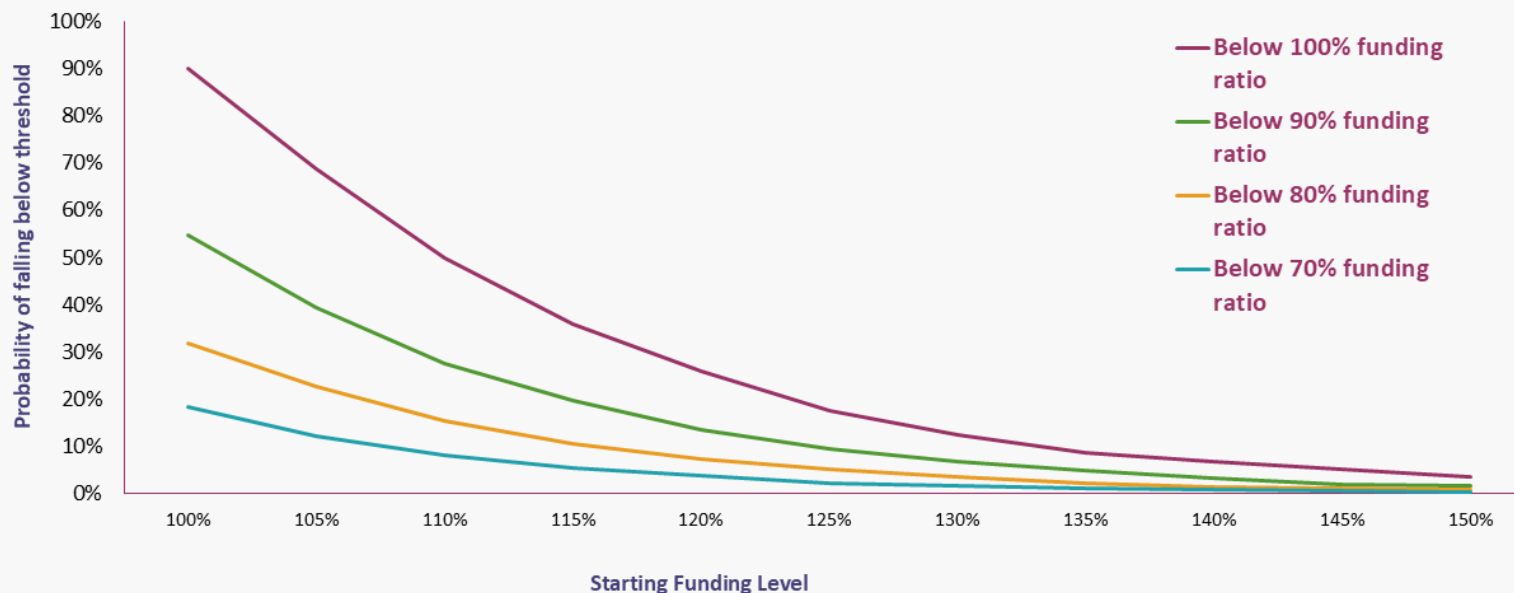


Surplus accessibility depends on scheme strategy, resilience, and governance

DB surplus sustainability depends on funding headroom and future volatility

Schemes in strong surplus can still face an over 1 in 4 shortfall risk

Probability of breaching funding thresholds within 25 years, by starting funding level (run-on scheme, closed to new entrants 10 years ago, closed to future accrual)



- At 105%, nearly 7 in 10 schemes may still become underfunded
- At 120%, there is a 1 in 4 probability of becoming underfunded.
- Reducing funding from 120% to 100% raises underfunding probability from 26% to 90%

DB surplus should be evaluated not only by its size today but by how resilient it remains under future economic stress

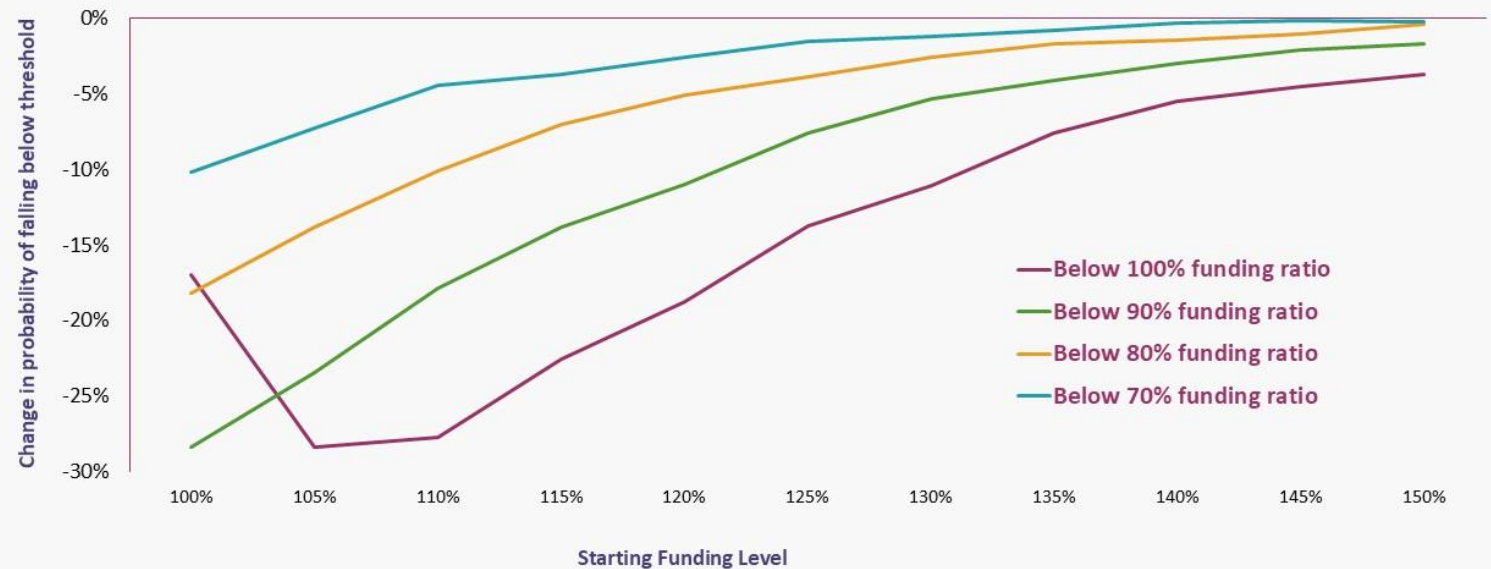
Scheme strategy and investment design determine safe surplus flexibility

Safe surplus utilisation depends on governance, structure, and investment discipline

- Surplus buffers are important for resilience
- Increasing equity exposure from 10% to 30% can reduce breach probability by around 18%
- Schemes with similar funding levels can face different future outcomes due to scheme design

Moderate increases in equity allocation can reduce the probability of breaching funding thresholds

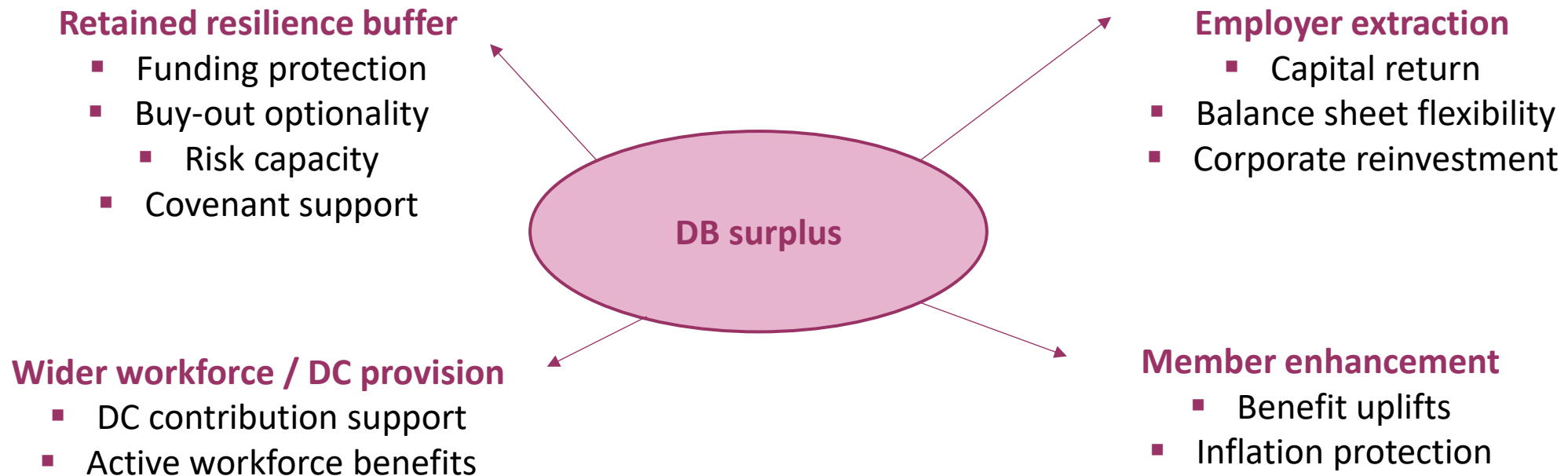
Difference in probability of falling below funding thresholds within 25 years, by starting funding level (Change from 10% to 30% equity allocation. Run-on scheme closed to new entrants 10 years ago and open to future accrual)



Sustainable release depends on covenant strength, governance capacity, downside risk, and strategic endgame

Surplus extraction creates strategic trade-offs between flexibility, security, and value allocation

Surplus use creates competing priorities between employer flexibility, member outcomes, and long-term resilience

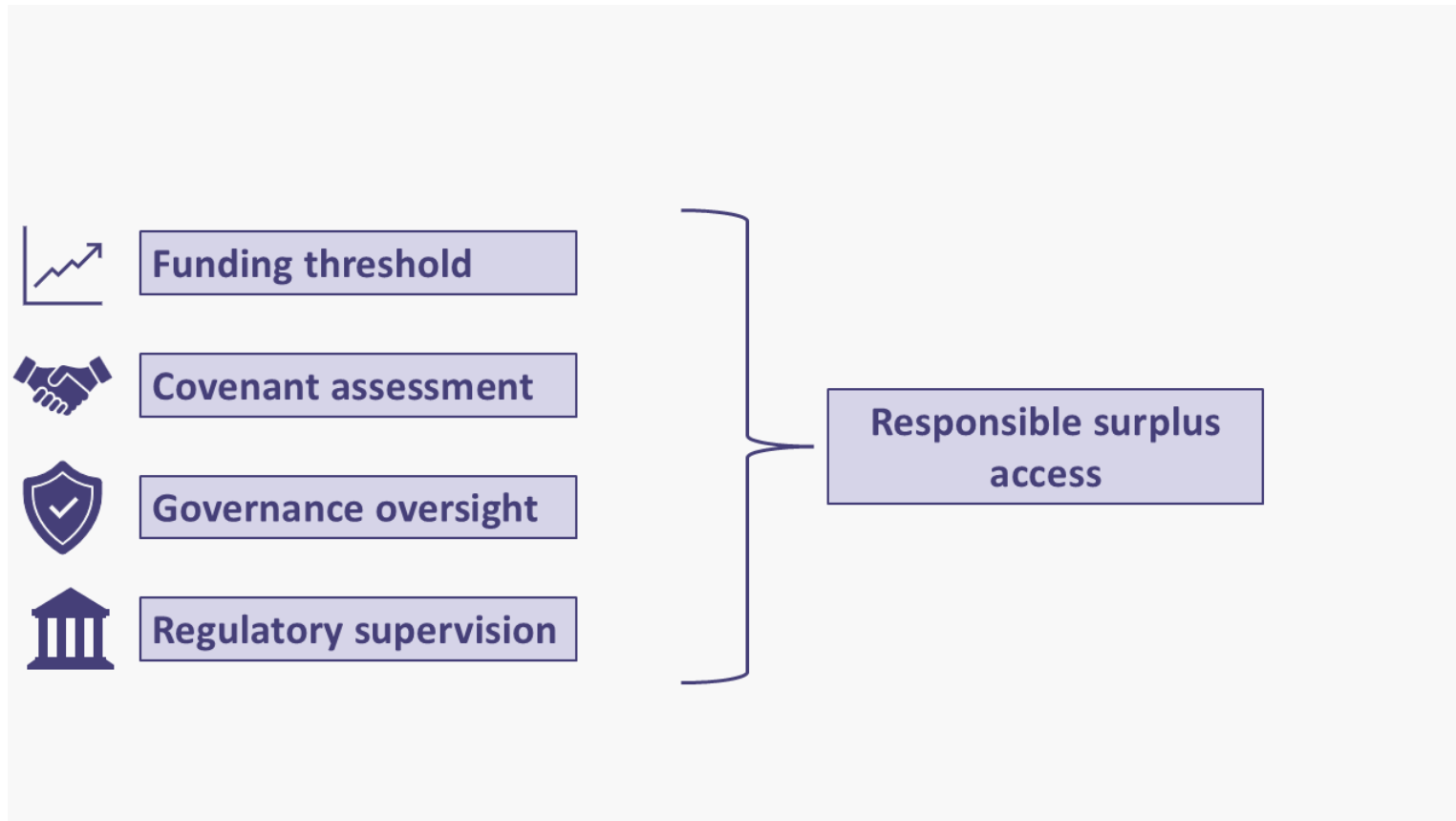


DB surplus should be treated as a carefully managed resource, with decisions about its use balancing immediate value creation against long-term member security and scheme resilience.

Safe surplus extraction requires strong safeguards

Responsible surplus extraction depends on resilience, covenant, and governance discipline

- Low dependency is a minimum threshold, not a sufficient extraction trigger
- Funding headroom above low dependency is important
- Covenant strength shapes acceptable extraction risk
- Trustee governance and regulatory oversight are essential

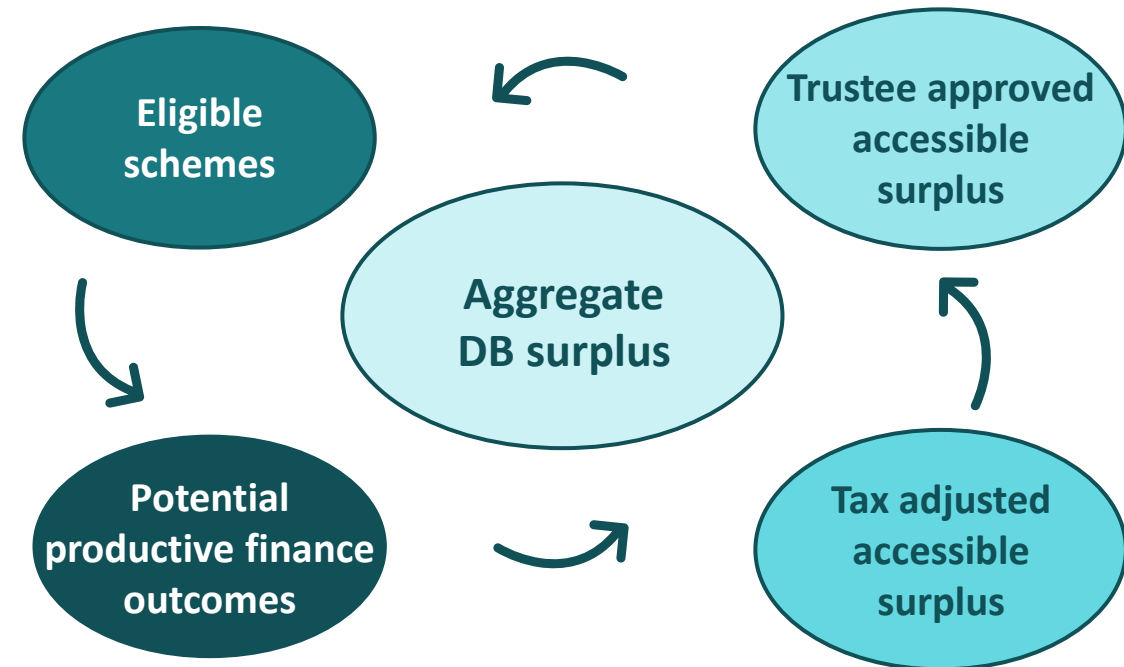


Surplus extraction should only occur where resilience remains demonstrably robust after capital is removed

DB surplus reform may expand productive finance opportunities

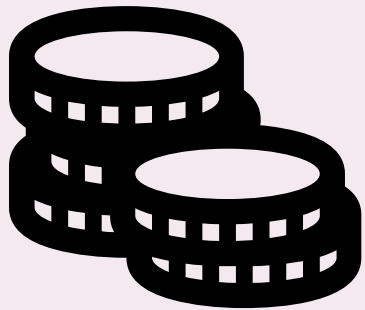
but real economic impact depends on how surplus is accessed, allocated, and used

- Employer refunds may support business investment, but actual economic outcomes remain uncertain
- Run-on and buy-out strategies channel pension capital through different parts of the financial system
- Surplus reform is more likely to broaden strategic options than deliver immediate large-scale economic transformation



DB surplus reform may create important economic opportunities, but practical productive finance outcomes will depend less on headline surplus estimates and more on trustee decisions, sponsor behaviour, and how surplus is ultimately used across the pensions system.

Key takeaways



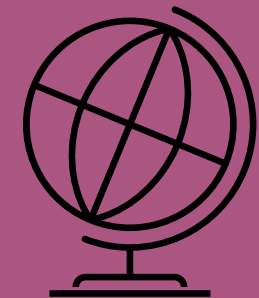
Practical surplus access is more limited than headline funding figures imply



Long-term surplus depends on resilience



Surplus use involves balancing flexibility and security



DB surplus reform may support economic growth, but outcomes depend on strategic capital use



Opening Comments from the Report Sponsors



Alex Oakley
Transition Manager
Standard Life



Phil Wadsworth
Chief Actuary
Chair of the Research and Technical Group
Aptia



Rob Yuille
Head of Long-Term Savings Policy
the ABI



Tiffany Tsang
Head of DB, LGPS and Investment
Pensions UK

Thank you

To the sponsors of this research report

The Standard Life logo features the words "Standard Life" in a bold, dark blue sans-serif font. A yellow triangle points upwards from the top right of the word "Life".

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The Pensions UK logo features a black square with a white L-shaped cutout on the left side, followed by the words "Pensions UK" in a black sans-serif font.

Pensions UK

Our panel and speakers: Claire Altman, Alex Oakley, Phil Wadsworth, Rob Yuille, Tiffany Tsang, Shantel Okello

The event chair: John Chilman

The research Steering Group: Louise Doherty, Charlotte Fletcher, Robyn Smith, Phil Wadsworth, John Wilson, Andy Seed, Krista D'Alessandro

Thank you for attending today